

Attachment 8.A

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St. Louis, January 31, 1997

MR. ATTERBURY:	MR. GILLIAM:	MR. MORGAN
MS. CARPENTER:	MR. GLOTZBACH:	MS. PARKER:
MS. CARR:	MS. K. JENNINGS	MR. PAYNE:
MR. CARTER:	MR. R. JENNINGS	MR. SHELLEY
MR. CASALI:	MR. KAUFMAN:	MR. SIGMAN:
MS. CHAMPION:	MR. KIERNAN:	MR. TAYLOR:
MR. COLE:	MR. LINDNER:	MR. TURNER:
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MR. EDELMANN:	MR. LUCAS:	MS. WAGNER:
MR. EASON:	MS. MANNING:	MR. WALKOVIAK:
MS. FANNIN:	MS. MARTINEZ:	MR. H. WILKINS:
MR. GALLEMORE:	MR. MASTERS:	MR. R. WILKINS:
MR. GESCHWIND:		

This is to advise you and those managers in your organization that deal with Southwestern Bell Telephone Company sales to or purchases from affiliated companies that there have been changes in the FCC rules that govern those sales and purchases. On December 24, 1996, the FCC issued an order in CC Docket 96-150 that implemented those changes. Attachment A provides a matrix of the changes and compares them to the rules that currently exist.

In overview, the changes are as follows:

1. In order to use a prevailing price for a service or asset that SWBT sells to or purchases from an affiliated company, SWBT must show that sales for a particular service or asset to nonaffiliated third parties encompasses greater than 50 percent of the total quantity of such services or asset sold by the entity. (Prevailing price is the price actually paid by nonaffiliated third parties for the same service or asset.)
2. For assets or services subject to the nondiscrimination requirements of Section 272 of the Telecommunications Act of 1996, SWBT may record such assets or services at prevailing price regardless of whether the 50 percent threshold has been satisfied. This is an exception to the 50% test for nontariffed facilities, services or information allowed by the FCC.
3. There is a new valuation procedure for nontariffed services SWBT purchases from an affiliate that does not exist solely to provide services to members of the

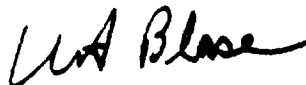
corporate family. If a service does not have a prevailing price and is not tariffed, the Maximum amount SWBT can record on its books for the purchase of that service is the lower of the estimated fair market value of the service or the affiliate's fully distributed cost for providing the service. (Estimated fair market value is an evaluation of what the same service would have cost from an unaffiliated vendor.)

4. For services that are not tariffed or prevailing price that SWBT sells to an affiliate, SWBT must record the higher of the estimated fair market value or fully distributed cost for SWBT to provide the service.
5. If a tariffed rate is not available for a service SWBT sells to affiliates, SWBT is allowed to use rates established pursuant to the Telecommunications Act of 1996 in publicly-filed interconnection agreements and statements of generally available terms and conditions.

SWBT must implement these rule changes in a short time frame to assure compliance requirements are met for the application for interLATA relief. To expedite the implementation of these requirements, the affiliate oversight group in my organization will work with the managers within your organizations responsible for the provision of affiliate services to define any specific changes that may be required in existing contracts, pricing procedures or true-up clauses in specific contracts. It continues to be our corporate policy to conform affiliate contracts to the FCC accounting safeguard requirements to assure compliance with those requirements and a clear audit trail.

We realize there are numerous issues from the Telecommunications Act that are being reviewed and discussed at this time. It is very important that we look at all of our existing affiliate contracts and implement the revised FCC accounting safeguards in a timely manner.

Kathleen Larkin will have the responsibility for the implementation of these rule changes and can be reached on 314-235-4907 should you or your staff have any questions. Again, we will work directly with the members of your staff with responsibility for the provision of affiliate services to direct and coordinate the required changes.



William A. Blase
Managing Director-Regulatory and External Affairs

Attachment

Regulatory and External Affairs
State Regulatory Issues

CC: Mr. Dupre
Ms. Marks

**SOUTHWESTERN BELL TELEPHONE COMPANY
OVERVIEW OF CC DOCKET 96-160 - ACCOUNTING SAFEGUARDS**

**CURRENT REQUIREMENTS OF SECTION 32.27 OF THE
FCC RULES AND REGULATIONS**

**REVISED REQUIREMENTS OF SECTION 32.27 OF THE
FCC RULES AND REGULATIONS**

1. Assets or services sold by or transferred between SWSBT and an affiliate pursuant to a tariff, shall be recorded at the tariff rate	SALE (SWSBT is allowed to use rates in publicly filed interconnection agreements and statements of generally available terms when tariffed rates are not available)
2. Non-tariffed assets or services sold by or transferred between the carrier and an affiliate may be recorded at the prevailing price. Prevailing Price is established by a substantial number of sales to unaffiliated third parties.	SALE (Except for the definition of prevailing price) Prevailing price is established if sales of a particular asset or service to nonaffiliated third parties encompasses greater than 50 percent of total quantity of such product or service sold by an entity
3.	SWSBT sales of facilities, services or information which are subject to the nondiscrimination requirements of Section 272 of the Telecommunications Act of 1996, may be recorded at prevailing price regardless of whether the 50 percent threshold has been satisfied
4. For all other assets sold by or transferred from the carrier to an affiliate, the asset shall be recorded by the carrier at the higher of fair market value and net book cost.	SALE
5. For all other assets purchased by the carrier from an affiliate, the asset shall be recorded by the carrier at the lower of fair market value and net book cost.	SALE
6. For all other services a carrier purchases from or sells to an affiliate, the service shall be recorded at fully distributed cost.	For services the carrier purchases from an affiliate that exists solely to provide services to members of the corporate family, the services shall be recorded at fully distributed cost (The FCC retained the significant ratepayer benefit from centralized functions and the economies of scope and scale that accrues) For all other services the carrier purchases from an affiliate, the service shall be recorded by the carrier at the lower of fair market value and fully distributed cost

For all other services the carrier sells to an affiliate, the service shall be recorded by the carrier at the lower of fair market value and fully distributed cost

Attachment 8.B

**AFFILIATE TRANSACTIONS: Regulatory Requirement for Review of Services
(Contracts) Between Pacific Bell and Pacific Bell Communications**

San Ramon, February 26, 1997

E. D. Hall:

The recent Accounting Safeguards Docket (No. 96-150) requires Pacific Bell to place all contracts between Pacific Bell and Pacific Bell Communications on the Internet for public inspection. The 1996 Telecommunications Act limits the services that Pacific Bell can provide to Pacific Bell Communications (PBC) unless we, Pacific Bell, are willing to provide these services to third parties under the same rates, terms and conditions. To comply with these two regulatory requirements, we are asking that you review the services your organization is providing to PBC and determine whether or not you would be willing to provide services to a third party.

A letter of certification is attached for your signature. This must be signed at Vice President Level. Due to the short turnaround that we have for getting these documents on the Internet (March 3, 1997), we are asking that you complete this review and certification by end of day Wednesday, February 27, 1997.

I apologize for the short turnaround. If you have any questions, please contact Liz Burd or Carol Mott in Pacific Bell Regulatory. They can both be reached on 415 542-0586.


Susan Hartford
Staff Manager
Transfer Pricing Affiliate Group

Attachment(s)

SERVICE CONTRACTS (SCHEDULES): Pacific Bell Communications

San Ramon, February 26, 1997

To: E. D. Hall:

Your organization is currently providing services to Pacific Bell Communications under the following service contract (Schedule):

Computer Security

Under the 1996 Telecommunications Act we can provide these services to Pacific Bell Communications only if we, Pacific Bell, are willing to provide these services to third parties under the same rates, terms and conditions. In addition, the Accounting Safeguards Docket (No. 96-150) requires that we make available for public inspection, on the Internet, by March, 3, 1997, descriptions of all service provided by Pacific Bell to Pacific Bell Communications.

To comply with these two requirements, we need to hear from you no later than Wednesday, February 27, 1997. If you have questions, please call Liz Burd or Carol Motta. Both Liz and Carol can be reached at (415) 542-0586. Please return the signed memo to Susan Harford, 2600 Camino Ramon, Room 2W550KK, San Ramon.

SIGN OFF MUST BE AT VICE PRESIDENT LEVEL

I want to continue providing this service to Pacific Bell Communications and I am willing to provide these services to third parties under the same rates, terms and conditions.

ED Hall VP 2-3-97
Name Title Date

I am not willing to provide these services to third parties under the same rates, terms and conditions. Please cancel this service.

Name Title Date